

Company Secretary
National Grid Gas Plc
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Date: 16 May 2024

Dear Company Secretary,

Gas Network Innovation Competition (NIC) Funding Direction

The NIC Funding Direction¹ sets out the amount that National Grid Gas Plc (NGGT) can recover from its customers in relation to the NIC. It also specifies the net amounts to be transferred between NGGT and other gas Network Licensees in relation to their NIC projects. The amount that NGGT can recover includes any funding for NIC projects funded in the 2023 competition and the amount awarded through the Successful Delivery Reward (SDR).

Under the SDR process, one completed NIC project Future Billing methodology (FBM) was awarded £0.54 million.² There were no disallowed expenditure or royalty incomes to be returned.

Background

We³ issue the NIC Funding Direction every year under the provisions of Chapter 7 (Funding Direction) of the Gas NIC Governance Document⁴ and pursuant to the licence conditions set out below in Table 1.

¹ Capitalised terms not otherwise defined in this document have the meaning given to them in Appendix 1 of the Gas NIC Governance Document.

² This year's SDR decisions document can be found here - [Decision on the 2023 Network Innovation Competition Successful Delivery Reward \(SDR\) applications \(ofgem.gov.uk\)](#)

³ The terms "we", "us", "our", "Ofgem" and "the Authority" are used interchangeably in this document and refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.

⁴ <https://www.ofgem.gov.uk/publications/version-31-gas-network-innovation-competition-governance-document>

Table 1 – Licence conditions

Network Licensee	Licence Condition
Cadent	Special Condition 7.7
National Grid Gas Transmission Plc	Special Condition 7.7

There are two broad categories of changes potentially affecting the NIC Funding Direction each year: the amount of funding awarded for successful NIC projects and funding returned to customers through the Funding Return Mechanism. These are set out below.

Funding awarded for successful NIC projects in 2023

The NIC only applied to the electricity distribution networks in 2023 because the other sectors are now operating the RIIO-2 price control. Under RIIO-2, the NIC is being wound down and innovation funding is instead available under other mechanisms such as the Strategic Innovation Fund (SIF). Accordingly, no new gas Projects have been awarded NIC funding.

Funding awarded through the 2023 Successful Delivery Reward (SDR)

In 2023, we conducted an assessment of the SDR for one completed gas NIC project. We assessed the expected outputs of the projects based on quality, cost and time, as required under paragraph 8.63 of the Gas NIC Governance Document. The maximum available reward for each Project is equal to the Network Licensee's 10% compulsory contribution to the NIC Project. The award for the successful project is in Table 2.

Table 2 – Projects awarded through the SDR

Project	Network Licensee	Funding rewarded (£)
Future Billing Methodology (FBM)	Cadent	538,080.12

Funding returned to customers through the Funding Return Mechanism

No funds are being returned via the Funding Return Mechanism (FRM) this year.

Table 3 - Funding to be returned under the Funding Return Mechanism

Project	Network Licensee	Funding to be returned (£)
N/A	N/A	N/A

Implementation

As the potential learning from the NIC projects provides benefits to all Network Licensees, they are funded by all gas customers through NTS Transportation Owner Charges. We implement this funding by amending the Maximum NTS Transportation Owner Revenue for the Regulatory Year 2024/25 in accordance with the Special Condition 7.7 of the Gas Transporter Licence held by NGG, and setting the amount that NGGT must transfer to the Network Licensees (taking into account any funding return) in accordance with Special Condition 7.7

In accordance with Special Condition 7.7 of the Gas Transporter Licence held by NGG and in accordance with the Gas NIC Governance Document, the schedule to this Funding Direction:

- (a) sets the value of the NIC Funding (NICF) term for NGGT (being the amount to be recovered by NGGT in order to provide for its own and other gas Network Licensees' NIC Funding for that Regulatory Year) – see Table 4 in the Schedule appended to this letter.
- (b) identifies the net amounts that are to be transferred between NGGT and other Network Licensees in order to ensure that each such licensee receives an amount equal to the proportion of the NIC Funding for that Regulatory Year that is attributable to its Eligible NIC Projects (adjusted to take into account the amount of any Funding Return) – see Table 5 in the Schedule appended to this letter.
- (c) sets out the manner in, and the timescale over which, the net amounts will be transferred.

In accordance with, Special Condition 7.7 of the Gas Transporter Licence held by NGGT and the Gas NIC Governance Document, the Authority hereby requires NGGT to comply with the conditions in the Schedule to this Funding Direction.

This Funding Direction constitutes notice pursuant to section 38A (Reasons for decisions) of the Gas Act 1986.

If you have further questions or want to discuss, please contact Mohammad Miah on mohammad.miah@ofgem.gov.uk.

Yours faithfully,

David McCrone
Head of Price Control Operations Policy
Networks
For and on behalf of the Authority

Schedule to Funding Direction

1. The value that NGGT must return to customers to cover NIC and Discretionary Funding in each Year

Table 4 contains the amount that NGGT must raise in the Regulatory Year 2024/25 commencing 1 April 2024. The amount that NGGT must raise is based on the total Approved Amounts for the NIC in Regulatory Year 2023/24. The amount that NGGT must recover, less any Funding Return constitutes the value for the NIC Funding (NICF) term.

2. The net amounts that must be transferred between Network Licensees

Table 5 contains the net amounts that must be transferred by NGGT to gas Network Licensees in the Regulatory Year 2024/2025 commencing 1 April 2024. For the avoidance of doubt, no adjustments for inflation should be made to these numbers.

3. The manner in which and timescale over which the net amounts will be transferred

The transfers must be made equally on a monthly basis, for the entirety of the Regulatory Year 2024/2025 commencing 1 April 2024 such that the total amount transferred over the Regulatory Year 2024/25 commencing 1 April 2024 equals the net amount set out in Table 5.

The Network Licensee that will be receiving funding from NGGT must provide its bank account details to NGGT by 1 March 2024. NGGT will make transfers to the specified bank accounts on the day of the month agreed by NGGT.

Table 4 – NICF term

Network Licensee	NICF Term (£)
National Grid Gas Transmission Plc	538,080.12

Table 5 – Amount to be transferred by NGGT

Network Licensee	Amount to be transferred by NGGT (£)
Cadent	538,080.12